

Message Text

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PAGE 01 BONN 03486 031348Z

43

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C O N F I D E N T I A L BONN 03486

E.O. 11652: GDS

TAGS: EFIN, MCAP, NATO, GW

SUBJECT: US/FRG OFFSET AGREEMENT

REF: STATE 45202

1. CHANCELLOR SCHMIDT HAS ON SEVERAL OCCASIONS INDICATED OPPOSITION TO ANOTHER OFFSET AGREEMENT. POLITICAL AND BUDGETARY CONSIDERATIONS RATHER THAN OVERALL ECONOMIC SITUATION WILL BE PRIMARY DETERMINANT OF GERMAN POSITION. WE BELIEVE IT WILL BE DIFFICULT TO NEGOTIATE ANOTHER TWO YEAR AGREEMENT OF THE MAGNITUDE OF THE PRESENT ONE AND PROBABLY COUNTER-PRODUCTIVE TO OPEN NEGOTIATIONS WITH A REQUEST GOING SIGNIFICANTLY BEYOND THIS.

2. WE WOULD ENVISAGE A US OPENING POSITION SUGGESTING A NEW AGREEMENT INCLUDING ROUGHLY (A) \$L.36 BILLION OF MILITARY EQUIPMENT (WHICH CORRESPONDS TO THE ESTIMATE OF THE MAAG OF WHAT GERMANS ARE LIKELY TO SPEND OVER NEXT TWO YEARS), (B) A BUNDESBANK LOAN OF DM 2-3 BILLION, AND (C) DM 600 MILLION FOR MODERNIZATION, CONSTRUCTION AND IMPROVEMENT OF TROOP FACILITIES.

3. THE TROOP FACILITIES ITEM WILL BE THE MOST
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PAGE 02 BONN 03486 031348Z

DIFFICULT TO NEGOTIATE IN VIEW OF THE DIRECT CHARGE IT

REPRESENTS ON THE GERMAN FEDERAL BUDGET AND THE VERY TIGHT GERMAN BUDGET SITUATION. IN THE END WE MAY HAVE TO SETTLE FOR LESS THAN DM 600 MILLION. BOTH THE GOVERNMENT AND THE BUNDESBANK WILL BE RELUCTANT TO AGREE TO ANOTHER BUNDESBANK LOAN IN VIEW OF THE MANY OTHER WAYS IN WHICH THE FRG IS CALLED UPON TO PROVIDE BALANCE OF PAYMENTS AID TO OTHERS. WE PROBABLY WOULD HAVE TO BE PREPARED TO SETTLE FOR A SHORTER MATURITY AND LESS OF SUBSIDY IN THE INTEREST RATE THAN IN THE PRESENT AGREEMENT. THE MILITARY PROCUREMENT ITEM IS THE EASIEST ITEM FOR THE FRG TO ACCEPT SINCE MOST OF THESE PURCHASES WOULD TAKE PLACE IN ANY CASE. WE FEEL, HOWEVER, THAT IT IS OF GREAT IMPORTANCE IN HELPING TO DIRECT THE MAXIMUM PROCUREMENT TO THE US.

4. WE ARE UNABLE TO JUDGE WHETHER A NEW AGREEMENT ALONG THE ABOVE LINES IS WORTHWHILE FROM WASHINGTON'S POINT OF VIEW. WE DO NOT BELIEVE, HOWEVER, THAT SIGNIFICANTLY MORE COULD BE OBTAINED AND EVEN TO OBTAIN THIS MUCH WILL BE DIFFICULT. ANY NEGOTIATION SHOULD IN OUR VIEW BE OPENED BY A LETTER FROM THE PRESIDENT TO THE CHANCELLOR SINCE HE SEEMS TO BE A KEY STUMBLING BLOCK AND WE ARE NOT LIKELY TO GET VERY FAR AT A LOWER LEVEL.
HILLENBRAND

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